

## Equities

16 October 2011 | 7 pages

### NIIT (NIIT.BO)

#### Alert: ElementK Sale at Attractive Valuations

**NIIT announced sale of ElementK** - NIIT announced the sale of ElementK (part of the corporate training business) to Skillssoft Corporation for a total consideration of \$110m. They also announced that NIIT had entered into a strategic agreement with Skillssoft which gives them assured revenues over the coming years besides tie-ups for content.

**Attractively priced deal** - We were valuing the entire corporate training business at ~\$63m in our SOTP for NIIT (in our target price of Rs. 61) while the market was perhaps valuing it even lower. The deal values ElementK (two-thirds of corporate training business) at ~\$110m - suggesting huge upside to implied valuations. *However, the transaction costs and taxes are not known yet – \$110m is inclusive of everything.*

**What does the deal mean for NIIT?** - (1) NIIT Ltd becomes a debt free company - the net debt was ~\$60m at the end of last quarter; (2) NIIT has also defocused on government school business in the past – so, margins / working capital profile should improve going forward; (3) NIIT will incrementally focus on Individual learning solutions (IT, employability and vocational training), private school business and managed training services (where the company has won lots of contracts in the past year or so).

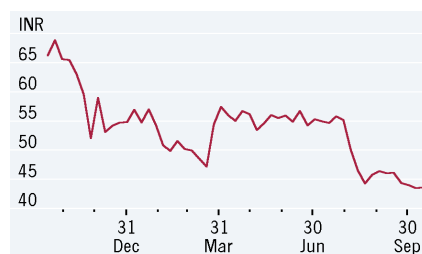
**Key issues beyond the near term** – (1) What will be the usage of this cash? (2) How will the remaining business look from a growth/margin/return on capital perspective? (3) Given that free cashflow should improve, what plans does management have for cash usage going forward?

**Expect meaningful upside in the near term** - NIIT's current market cap and EV are ~\$150m and ~\$210m respectively. We have been arguing that the stock is attractively valued - this transaction will result in value unlocking - we expect significant upside to the NIIT stock in the near term.

#### Company Update

<b>Buy</b>	<b>1</b>
Price (14 Oct 11)	Rs43.60
Target price	Rs61.00
Expected share price return	39.9%
Expected dividend yield	3.4%
<b>Expected total return</b>	<b>43.3%</b>
Market Cap	Rs7,198M
	US\$147M

#### Price Performance (RIC: NIIT.BO, BB: NIIT IN)



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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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# NIIT

## Valuation

We value NIIT at Rs61 based on our SOTP methodology given the fact that the company has four different business segments. We value the ILS segment at 6x Sep'12E EV/EBITDA, SLS segment at 5x Sep'12E EV/EBITDA, CLS segment at 5x Sep'12E EV/EBITDA and New Businesses at 1x Sep'12E EV/Sales (given that we expect breakeven only by the end of FY12). We value the 25% stake held in NIIT Technologies at a 25% holding-company discount. Our target price implies a target multiple of ~8x 1-year forward, which is towards the lower end of the historical trading band of ~3-22x over the past three years. With macro still uncertain, we believe that NIIT will trade towards the lower end of its historical trading band. We expect revenue and EBITDA CAGR of ~13% and ~17% respectively over FY11-13E.

## Risks

The key risks to our investment thesis on NIIT are: (1) Lower enrollment in IT courses; (2) Lower price realization in the retail training business; (3) Higher inflation in fixed costs; (4) Slower fresh orders in the institutional business; (5) Lower fresh orders in the corporate business; (6) Lower growth in new businesses.

If any of these risk factors has a greater downside impact than we anticipate, the share price will likely have difficulty attaining our target price.

## Appendix A-1

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#### NIIT (NIIT.BO)

#### Ratings and Target Price History

#### Fundamental Research

Analyst: Surendra Goyal, CFA

Covered since September 26 2011

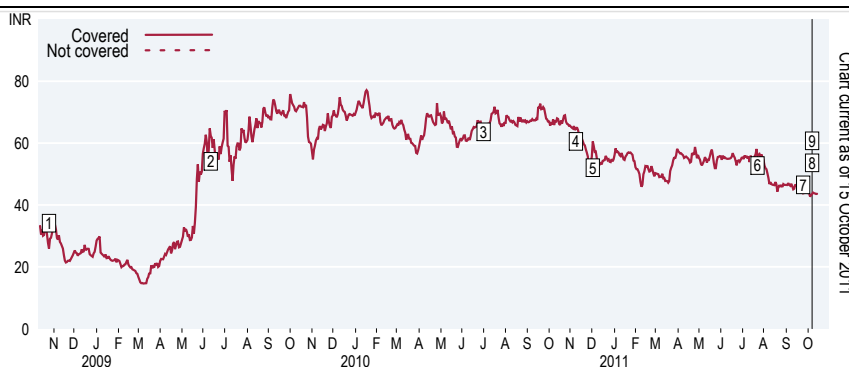


Chart current as of 15 October 2011

	Date	Rating	Target Price	Closing Price
1	27-Oct-08	3H	*27.00	25.90
2	11-Jun-09	3H	*50.00	62.35
3	1-Jul-10	*1M	*85.00	63.65

	Date	Rating	Target Price	Closing Price
4	9-Nov-10	1M	*87.00	64.65
5	2-Dec-10	1M	*81.00	60.55
6	22-Jul-11	1M	*79.00	55.85

	Date	Rating	Target Price	Closing Price
7	26-Sep-11	1M	*61.00	43.50
8	7-Oct-11	Stock rating system changed		
9	7-Oct-11	*1	61.00	43.55

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

**NIIT (NIIT.BO)**  
**Ratings and Target Price History**  
**Best Ideas Research**  
**Relative Call (3 Month)**

Analyst: Surendra Goyal, CFA  
Covered since September 26 2011



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*Data current as of 10 Oct 2011*

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
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